

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

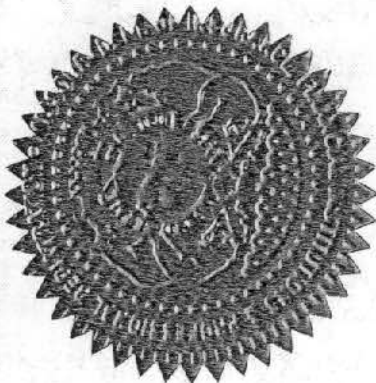
RE: Examination Report of Mercy Health Plans of Missouri, Inc. as of December 31, 2006

### ORDER

After full consideration and review of the report of the financial examination of Mercy Health Plans of Missouri, Inc. for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Mercy Health Plans of Missouri, Inc., to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 28, 2008.



DOUGLAS M. OMMEN, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

Mercy Health Plans of Missouri, Inc.

AS OF  
DECEMBER 31, 2006

FILED  
JUN 07 2008  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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April 15, 2008  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Merle D. Scheiber, Director  
Division of Insurance  
State of South Dakota  
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, MO 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of the

**Mercy Health Plans of Missouri, Inc.**

also referred to as "MHPMO" or the "Company." The examination was conducted at the Company's office at 14528 S. Outer 40, Suite 300, Chesterfield, MO 63017-5705, telephone number (314)-214-8100. This examination began on April 30, 2007, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of Mercy Health Plans of Missouri, Inc., was performed as of December 31, 2002. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2003, through December 31, 2006. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. Lewis & Ellis, Inc., Actuaries & Consultants, reviewed reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring after December 31, 2006.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed.

### **Comments Previous Examination**

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

#### **1. Comment: Fidelity Bond and Other Insurance**

The crime policy carried by the Sisters of Mercy Health System, St. Louis, Inc. does not contain "...a provision that no cancellation or termination of the bond, whether by or at the request of the insured or by the underwriter, shall take effect prior to the expiration of ninety days after written notice of such cancellation or termination has been filed with the director, unless an earlier date of such cancellation or termination is approved by the director" as stipulated in Section 354.425 RSMo (Bonding of officers who disburse or invest funds--bond requirements). The discovery period of the Sisters' crime policy is one year. The above provision is required if there is less than a three-year discovery period. We direct the Company to amend its crime policy.

#### **Company's Response:**

The Company had the policy amended to provide 90 days notice to the Director if there is a cancellation or termination of the policy.

#### **Current Findings:**

The Company has maintained coverage to meet the requirements of Section 354.425 RSMo (Bonding of officers who disburse or invest funds--bond requirements).

## **HISTORY**

### **General**

Mercy Health Plans of Missouri, Inc. was organized by the Sisters of Mercy as a Health Maintenance Organization pursuant to Sections 354.400 through 354.550 RSMo (Health Maintenance Organization). The Company received its Certificate of Incorporation on October 17, 1994. The Company received its Certificate of Authority on January 5, 1995, and began business operations on January 6, 1995, in St. Louis.

### **Capital Stock**

The Company currently has the authority to issue 1,000,000 shares of common capital stock with a \$1 par value. As of the prior examination date of December 31, 2002, there were 657,808.53 shares issued and outstanding. The Company made a series of retirements of capital stock, retiring 142,680; 170,000 and 150,000 shares, in 2004, 2005 and 2006 respectively. This resulted in 195,128.53 shares outstanding for a total capital stock balance of \$195,128.53 on December 31, 2006. All capital stock is owned by the Company's immediate parent, MHP, Inc., (formerly Mercy Health Plans, Inc.)

The retirements of capital stock during the examination period also resulted in the decrease of Gross paid in and contributed surplus from \$73,503,289 at December 31, 2002, to \$27,697,969 at December 31, 2006.

### **Dividends**

The Company has not paid any dividends.

### **Management**

The Board of Directors of the Company consists of nine members as authorized by the Articles of Incorporation and Bylaws. The members elected and serving as of December 31, 2006, were as follows:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Ronald B. Ashworth Chesterfield, MO	Sisters of Mercy Health System. St. Louis, Inc. President/Chief Executive Officer
Ronnie D. Brownsworth, M. D. Springfield, MO	St. John's Health System, St. Louis, Inc. Sr. Vice President-Medical Management
Kim Day Springfield, MO	St. John's Health System Chief Financial Officer
Thomas H. Hale, M.D. St. Louis, MO	Mercy Medical Group President
Margaret D. DeNarvaez St. Louis, MO	St. John's Mercy Health Care President/Chief Executive Officer
James R. Jaacks Chesterfield, MO	Sisters of Mercy Health System, St. Louis, Inc. Vice President/Chief Financial Officer
Mark L. Lane Rego Park, NY	Fidelis Care New York President/Chief Executive Officer
Michael G. Murphy Chesterfield, MO	MHP, Inc. President/Chief Executive Officer
Robert R. Vogel Chesterfield, MO	Sisters of Mercy Health System, St. Louis, Inc. Vice President – Managed Care



Article VI of the bylaws states that "...The officers of the corporation shall include a president, a treasurer and a secretary...The president may appoint such other officers and agents as he shall deem desirable..."

The officers elected and serving as of December 31, 2006, were as follows:

<u>NAME</u>	<u>POSITION</u>
Michael G. Murphy	President/Chief Executive Officer
Charles S. Gilham	Corporate Secretary
George A. Schneider	Chief Financial Officer/Treasurer

### **Conflict of Interest**

The Company has a comprehensive Corporate Compliance Program which includes a Code of Conduct, Conflict of Interest Policy, and Information Technology Usage Policy. Conflict of Interest Forms were reviewed for directors and officers for the period under examination with no material conflicts noted.

### **Corporate Records**

The Company reported no amendments to the Articles of Incorporation or the Bylaws during the period under examination. The minutes of the Board of Directors meetings provided sufficient documentation of major corporate transactions, however there was insufficient corporate documentation as noted below.

Election of members to the Board of Directors is a function of the stockholders; however the election was instead noted in the Board of Directors meeting minutes. The Company was unable to provide minutes of stockholder meetings during the examination period.

Although Article IV of the bylaws states that the Company shall have an Executive committee comprised of four members, there was no election of members to that committee documented in the Board of Directors' minutes during the examination period. The Company was unable to provide minutes of an Executive committee.

### **Acquisitions, Mergers, and Major Corporate Events**

Mercy MC+, Inc. was incorporated on May 12, 2005, as a subsidiary of Mercy Health Plans of Missouri, Inc. (MHPMO). Mercy MC+, Inc. was licensed as a Health Maintenance Organization (HMO) on June 28, 2005. The Company was formed to take advantage of tax incentives available to Medicaid only HMO's. All of the former Medicaid business of MHPMO was transferred on July 1, 2005, to Mercy MC+, Inc. and then ceded back to MHPMO under a 100% quota share reinsurance agreement that included the management and administration of Mercy MC+, Inc. by MHPMO. Mercy MC+, Inc. terminated its participation in the Missouri Medicaid program effective June 30, 2006, and is currently writing no new business.



### **Surplus Debentures**

None

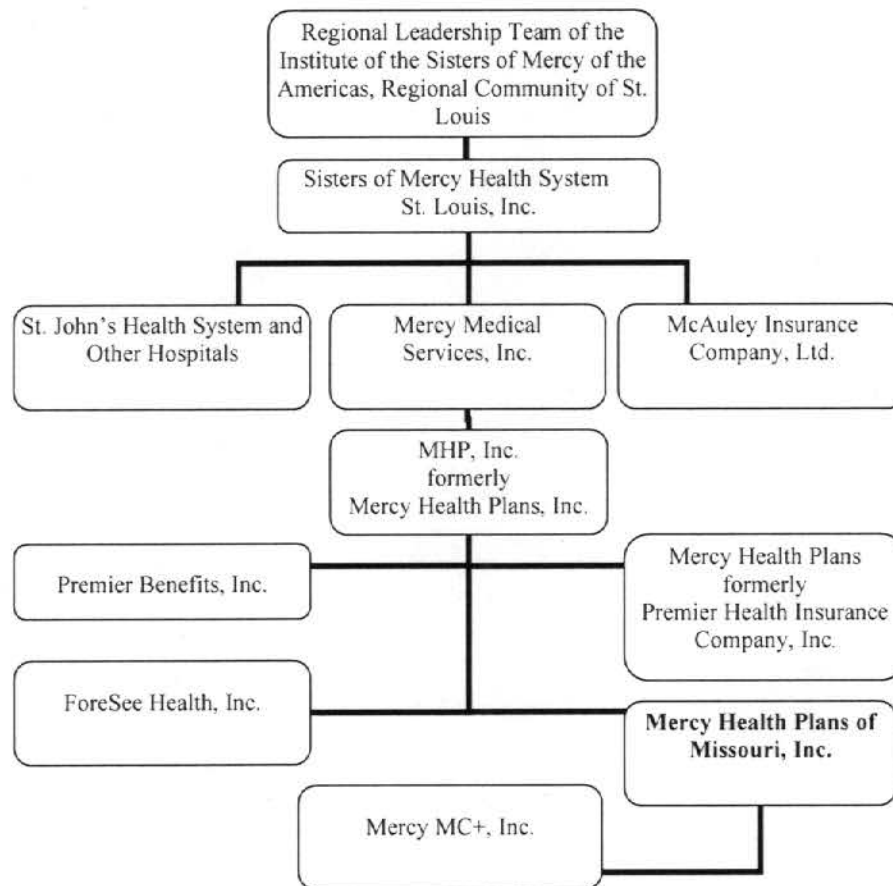
## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

The ultimate controlling person in the insurance holding company system is the Regional Leadership Team of the Institute of the Sisters of Mercy of the Americas, Regional Community of St. Louis (Sisters of Mercy). The Sisters of Mercy is a Roman Catholic order of nuns. One of their ministries is Sisters of Mercy Health System, St. Louis, Inc., a not-for-profit corporation. Sisters of Mercy Health System, St. Louis, Inc. owns 100% of the stock of MHP, Inc., (formerly Mercy Health Plans, Inc.), a for profit holding company that owns 100% of the stock of Premier Benefits, Inc., Mercy Health Plans, (formerly Premier Health Insurance Company, Inc.), Mercy Health Plans of Missouri, Inc. and ForeSee Health, Inc. Mercy Health Plans of Missouri, Inc. owns 100% of Mercy MC+, Inc.

### **Organizational Chart**

The Sisters of Mercy and some of their subsidiaries form an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The organizational chart below depicts the portion of the holding company system of which Mercy Health Plans of Missouri, Inc., is directly a part.



### **Intercompany Agreements**

During the period under examination the Company was party to the following intercompany agreements, not including reinsurance agreements. Reinsurance agreements are discussed in the reinsurance section of this report.

1. Type: Tax Allocation Agreement
- Parties: Mercy Medical Services, Inc., MHP, Inc., Mercy Health Plans of Missouri, Inc., Premier Benefits, Inc., Mercy Health Plans, Foresee Health, Inc., and Mercy MC+, Inc.
- Effective: October 1, 2005
- Terms: The companies elect to file consolidated federal income tax returns pursuant to the provisions of section 1501 of the Internal Revenue Code of 1986 as amended.  
  
The consolidated federal income tax liability of the companies shall be apportioned to each company as if each company had computed its federal income tax liability on a separate company basis.

Allocations will be reconciled within 45 days after the end of each quarter and settlement of any tax liability will be made within 90 days from the filing of the consolidated return.

2. Type: Guaranty Agreement  
Parties: Sisters of Mercy Health System, St. Louis, Inc. and MHP, Inc.  
Effective: February 2, 2000, updated May 7, 2004  
Terms: Sisters of Mercy Health System, St. Louis, Inc. unconditionally guarantees the due and punctual payment of all legal obligations of MHP, Inc. and subsidiaries (includes Mercy Health Plans of Missouri, Inc.) and unconditionally guarantees that MHP, Inc. will maintain an adequate level of capital to comply with all regulatory and statutory requirements.  
  
The guaranty is to remain in effect until the earlier of: (a) when MHP, Inc. is assigned an independent financial strength rating from Standard & Poor's Ratings Group, equal to or better than guarantor or (b) 90 days after this guaranty is revoked by written notice to MHP, Inc. and the Missouri Department of Insurance.
3. Type: Disease Management Agreement  
Parties: Mercy Health Plans of Missouri, Inc., Mercy Health Plans, Mercy MC+, Inc., and Foresee Health, Inc.  
Effective: October 1, 2005  
Terms: Foresee Health, Inc. is an affiliated company providing various disease management programs to the other companies in this agreement where medical management is not already delegated. The programs offered include management of diabetes, asthma, congestive heart failure, and complex care coordination.  
  
The companies will pay per member per month (PMPM) fees to Foresee Health, Inc. for these services.
4. Type: Management Agreement  
Parties: MHP, Inc., Mercy Health Plans of Missouri, Inc., and Mercy Health Plans  
Effective: Original April 5, 1995, last revision January 1, 2005  
Terms: MHP, Inc. will provide the following services to the other parties; financial services, management of general accounting, provider relations, system development, purchasing, compliance, personnel, professional, support services management, and general management.

The companies will pay PMPM fees for these services.

5. Type: Medical Management Agreement  
Parties: MHP, Inc., Mercy Health Plans of Missouri, Inc., and Mercy Health Plans  
Effective: November 24, 1997, last revision January 1, 2005  
Terms: MHP, Inc. will provide the following services to the other Companies: utilization management, provider credentialing, and quality management.

Mercy Health Plans of Missouri, Inc., and Mercy Health Plans will, in return, provide the following services to MHP, Inc.: beneficiary appeals, final determination concerning payment for services, follow-up on complaints and quality improvement action plans, assist MHP, Inc. in compliance with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and the National Committee for Quality Assurance (NCQA) standards, design and implementation of all health benefit plans, and be responsible for the selection and approval of providers, and to contract with a third party administrator to process all claims submitted on behalf of third-party payers who have contracted with MHP, Inc. for such services.

The companies will pay PMPM fees for these services.

6. Type: Administrative Services Agreement  
Parties: Premier Benefits, Inc., Mercy Health Plans of Missouri, Inc. and Mercy Health Plans  
Effective: April 5, 1995; last revision January 1, 2005  
Terms: Mercy Health Plans of Missouri, Inc. and Mercy Health Plans will prepare and print the forms and other documents necessary for Premier Benefits, Inc. to provide services pursuant to the agreement.

Premier Benefits, Inc. shall process or arrange for the processing of claims for health services under the plan.

Mercy Health Plans of Missouri, Inc. and Mercy Health Plans shall arrange for the providers to submit claims directly to Premier Benefits, Inc. and shall provide standard forms for the submission of claims.

Premier Benefits, Inc. shall conduct coordination of benefits (COB) consistent with the terms of the plans. Premier Benefits, Inc. will assert, or arrange for a third-party to assert any subrogation rights regarding payments for health services.

The companies will pay PMPM fees for these services.

7. Type: Base Agreement  
Parties: MHP, Inc., on behalf of all of its wholly owned subsidiaries (including MHPMO), and St. John's Health System  
Effective: January 1, 1999  
Terms: St. John's Health System provides a network for covered medical and hospital services to capitated commercial and Medicare members of the Company and to members of MHP, Inc.'s other wholly owned subsidiaries.

This agreement also provides that MHP, Inc. (and subsidiaries) may delegate the performance of medical management services to St. John's Health System.

St. John's Health System receives 88 to 90% of the premium to provide these services.

These agreements were all filed with the Department of Insurance, Financial Institutions and Professional Registration and were not disapproved.

#### **FIDELITY BOND AND OTHER INSURANCE**

Mercy Health Plans of Missouri, Inc. is insured on a \$1,250,000 crime policy, issued to MHP Inc. and subsidiaries with a \$1,000 deductible. This coverage meets the NAIC suggested minimum coverage.

The Company is also insured on other coverages which include, but are not limited to: auto liability, auto physical damage, comprehensive liability, excess liability healthcare, directors and officers, employment practices, fiduciary, non-owned aircraft liability, property and workers' compensation. The Sisters of Mercy Health System, St. Louis, Inc. appears to provide adequate coverage for the exposed risks of Mercy Health Plans of Missouri, Inc.

#### **EMPLOYEE BENEFITS**

The Company has no employees. All personnel services are provided pursuant to the management agreement with MHP, Inc., (formerly Mercy Health Plans, Inc.)

The Sisters of Mercy Health Systems, Inc., provides a complete benefit package for all employees of its holding company group, including: vacation, sick leave, life insurance, disability coverage, tuition reimbursement, medical, dental and vision benefits, and flexible spending accounts. They also provide both a pension plan, which is completely funded by the Sisters of Mercy Health Systems, Inc., and a 401 (k) plan for all employees.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, as reflected below, were deemed sufficient in par and market value to meet the deposit requirement for the State of Missouri in accordance with Section 354.410 RSMo (Certificate issued, when--annual deposit, requirements--capital account, amount, contents).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	<u>\$950,000</u>	<u>\$933,746</u>	<u>\$942,020</u>

### Deposits with Other States and Territories

The Company maintains funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. The funds on deposit with other states as of December 31, 2006, are listed below.

<u>State or Territory</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Illinois	U.S. Treasury Note	\$310,000	\$304,696	\$307,943
Texas	Canadian Government	<u>105,000</u>	<u>103,204</u>	<u>104,413</u>
Total		<u>\$415,000</u>	<u>\$407,900</u>	<u>\$412,356</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed as an HMO with the Department of Insurance; Financial Institutions and Professional Registration under Chapter 354 RSMo (Health service corporations, health maintenance organizations and prepaid dental plans) and operates as an individual practice association model. The Company is also licensed in the states of Illinois and Texas. The products are managed on a regional basis, with the Company operating in three distinct regions: 1) Southwest Missouri, 2) Texas, primarily around the Laredo area and 3) St. Louis, Missouri, which includes mid-Missouri and counties in Illinois.

The Company markets to large and small groups. The Company offers two products: POS (point of service) and the traditional HMO (health maintenance organization).

### Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The DIFP has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. A Market Conduct examination was conducted on the Company, but remains open while an examination on a related company, (which shares the same

systems), is performed concurrently with this examination. No issues were noted which would have an impact on the Company's solvency.

## REINSURANCE

### General

The Company's premium income on a direct written, assumed and ceded basis for the current examination period was as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Direct Business	\$ 365,571,653	\$ 424,927,933	\$ 561,639,603	\$ 597,601,557
Reinsurance Assumed	52,054,680	52,240,542	-	-
Reinsurance Ceded	<u>(724,172)</u>	<u>(857,999)</u>	<u>(1,097,849)</u>	<u>(1,274,583)</u>
Net Premiums	<u>\$ 416,902,161</u>	<u>\$ 476,310,476</u>	<u>\$ 560,541,754</u>	<u>\$ 596,326,974</u>

### Assumed

The Company formed Mercy MC+, Inc. (MC+), which was incorporated on May 12, 2005, as a direct subsidiary, to take advantage of tax incentives available to Medicaid only health maintenance organizations. All of the former Medicaid business of MHPMO was transferred on July 1, 2005, to MC+ and then ceded back to MHPMO under a 100% quota share agreement. The Medicaid business consisted solely of a contract with the state of Missouri, which was not renewed after June 30, 2006. The reinsured business is currently in runoff. MC+ reported no members at year end 12/31/06.

### Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

From 2003 through 2005, the Company obtained excess reinsurance coverage through Munich American Reassurance Company. In 2006, the Company contracted with Employers Reinsurance Corporation. The agreement provides for retention by the Company of the first \$400,000 of hospital services and first \$250,000 for medical services for each member during the year. The Company also retains a portion of the cost above the initial retention, 10 per cent for scheduled services and more if cost exceeds the scheduled rate.

The agreement also provides for a carryover if the agreement is renewed. Losses incurred during the last 60 days of the agreement period for which the specific retention was not met are reinsured as if incurred during the next agreement.

There is a \$2,000,000 limit per member per agreement period and per lifetime.



The Company was also a party to an "Experience Refund Agreement" among itself, Employers Reinsurance Corporation, Mercy Health Plans, and Mercy MC+, Inc. The provisions of this agreement provide for a refund from Employers Reinsurance Corporation should certain premium and loss ratio goals be met. This agreement had no material effect on any of the Companies.

## **ACCOUNTS AND RECORDS**

An independent accounting firm audits the Company annually. The Company's 2006 financial statements were audited by the CPA firm, Ernst & Young LLP. Their workpapers were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Daniel S. Pribe, F.S.A., M.A.A.A., Executive Director of Actuarial and Underwriting Services, Mercy Health Plans Inc.

The actuarial firm of Lewis & Ellis, Inc., reviewed the actuarial assumptions and methods used by the Company in determining claims unpaid, policy reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration and they opined that reserves and related actuarial items were reasonable.

Andrew Balas, the Information Systems Examination Specialist with the Department of Insurance, Financial Institutions and Professional Registration reviewed the Company's information systems with no major problems noted. The Company has a disaster recovery plan in place. All information system services are provided by the parent company.

The Company verifies that intercompany balances agree across all related entities but the intercompany accounts are not analyzed and reconciled on a regular basis. As noted in the prior examination management letter, the Company should reconcile the intercompany accounts on a regular basis. The accounts should be reconciled at least quarterly and settled regularly.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

## ASSETS

	Amounts Per Annual Statement			Notes	Examination Findings	
	Assets	Assets Not Admitted	Net Admitted Assets		Examination Adjustments	Net Admitted Assets
Bonds	\$64,619,018		\$64,619,018	1		\$64,619,018
Common stocks	674,540		674,540			674,540
Cash and short-term investments	6,184,478		6,184,478			6,184,478
Subtotal Cash and Invested Assets	\$71,478,036		\$71,478,036			\$71,478,036
Investment income due and accrued	757,302		757,302			757,302
Uncollected premiums and agents balances	7,817,522	275,934	7,541,588			7,541,588
Amounts recoverable from reinsurers	549,365		549,365			549,365
Net deferred tax asset	436,259	200,161	236,098			236,098
EDP Equipment	18,020	6,581	11,439			11,439
Furniture and Equipment	329,216	329,216	-			-
Receivables from parent, subsidiaries and affiliates	2,676,401		2,676,401			2,676,401
Health care and other amounts receivable	2,201,623	911,798	1,289,825			1,289,825
Total Assets	\$86,263,744	\$1,723,690	\$84,540,054			\$84,540,054

## LIABILITIES, CAPITAL AND SURPLUS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Claims unpaid	\$20,670,001			\$20,670,001
Accrued medical incentive pool	285,903			285,903
Premiums received in advance	868,760			868,760
General expenses due or accrued	4,494,294			4,494,294
Federal income tax payable	6,178,474			6,178,474
Reinsurance ceded payable	86,167			86,167
Amounts withheld or retained by company	1,544			1,544
Payable to parent, subsidiaries and affiliates	2,375,077			2,375,077
Medicare Part D reserve reinsurance payment	3,456,399			3,456,399
Total Liabilities	\$38,416,619			\$38,416,619
Common capital stock	\$195,129			\$195,129
Gross paid in surplus	27,697,969			27,697,969
Unassigned funds	18,230,336			18,230,336
Total Liabilities, Capital and Surplus	\$84,540,054			\$84,540,054

## STATEMENT OF REVENUES AND EXPENSES

	Amounts Per Annual Statement
Net premium income	\$417,117,847
Network Rental	288,465
Capitation on ASO Plans	704,709
Total revenues	\$418,111,021
<b>Hospital and Medical:</b>	
Hospital and medical benefits	\$142,331,031
Other professional services	3,947,812
Emergency room and out-of-area	4,735,338
Prescription drugs	29,141,193
Global capitation expense	144,484,628
Capitation on ASO Plans	704,709
subtotal	\$325,344,711
<b>Less:</b>	
Net reinsurance recoveries	53,287,783
Total hospital and medical	\$378,632,494
Claims adjustment expenses	13,994,605
General administrative expenses	25,693,376
Increase in reserves for life and accident and health contracts	(1,265,613)
Total underwriting deductions	\$417,054,862
Net underwriting gain or (loss)	\$1,056,159
Net investment income earned	3,427,314
Net investment gains	\$4,483,473
Federal and foreign income taxes incurred	(3,919,763)
Net Income	\$563,710

## NOTES TO FINANCIAL STATEMENTS

### **Note 1      Cash**

**S(-0-)**

No change was made to the cash account; however, the Company consolidated its cash with other related companies into an account held by the Company. The funds were then invested in cash and short-term assets. The Company should have reported the asset as cash, short-term investments, and intercompany payables. The Company has agreed to end the co-mingling arrangement and maintain separate cash accounts for each company.

## EXAMINATION CHANGES

There were no examination changes.

## GENERAL COMMENTS AND/OR RECOMMENDATIONS

### **Corporate Records**

**Page 4**

Although Article IV of the bylaws states that the Company shall have an Executive committee comprised of four members, there was no election of members to that committee documented in the Board of Directors' minutes during the examination period. The Company was unable to provide minutes of an Executive committee.

Election of members to the Board of Directors is a function of the stockholders; however the election was instead noted in the Board of Directors meeting minutes. The Company was unable to provide minutes of stockholder meetings during the examination period.

The Company is required to hold stockholder meetings and maintain the minutes thereof. Those minutes must document the election of the Board of Directors. The Company shall adhere to its bylaws, which includes electing an Executive committee. The Company shall maintain the minutes of the meetings of the committee.

### **Accounts and Records**

**Page 12**

The Company verifies that intercompany balances agree across all related entities but the intercompany accounts are not analyzed and reconciled on a regular basis. As noted in the prior examination management letter the Company should reconcile the intercompany accounts on a regular basis. The accounts should be reconciled at least quarterly and settled regularly.

## SUBSEQUENT EVENTS

The Company is involved in a class action lawsuit regarding the limitation of copays in relation to total charges which may result in the payment of additional amounts of medical and pharmacy claims plus interest and legal fees. The Company indicated that due to the preliminary status of the case, no reasonable estimate of the outcome can be determined.

On April 7, 2008, Mercy MC+, Inc. filed a Form D with the DIFP to inform the Department that management intended to dissolve the Company on or before June 15, 2008. All assets and liabilities of Mercy MC+, Inc. will be assumed by the Company.



## ACKNOWLEDGMENT

The assistance and cooperation extended by Mercy Health Plans during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Milster, CPA, CFE, John Boczkiewicz, CPA, CFE, Douglas Daniels, CPA, David Schaper and Andrew T. Balas, AES, CFE, CPA examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Karen E. Elsom, FSA, MAAA, of Lewis & Ellis, Inc., Actuaries & Consultants, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items.

## VERIFICATION

State of Missouri     )  
                             ) ss  
County of St. Louis   )

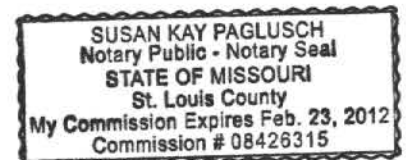
I swear on my oath that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Wyatt R. Sample  
Wyatt R. Sample, CFE, CPA  
Examiner-in-Charge, Department of Insurance,  
Financial Institutions and Professional Registration  
Midwestern Zone, NAIC

Sworn to and subscribed before me this 14 day of April  
My commission expires: 1 5

Feb 23 2017

  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christian Dugopolski



RECEIVED  
MAY 23 2008

DEPT OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

May 20, 2008

Frederick G. Heese, CFE, CPA  
Chief Financial Examiner & Acting Division Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
P.O. Box 690  
Jefferson City, MO 65102-0690

Re: Mercy Health Plans of Missouri, Inc.  
Financial Examination for the period ending December 31, 2006

Dear Mr. Heese:

Thank you for sending a Draft of the Financial Examination Report of Mercy Health Plans, of Missouri. The following responses to MDI's General Comments And/Or Recommendations beginning on Page 17 of the report may be included in the report as a public document.

Corporate Record

Page 4

The Company will document the election of an Executive Committee in accordance with its bylaws. The Company will also provide more formal documentation of meeting minutes in the future, including meetings of the Executive Committee and Shareholder meetings.

Accounts and Records

Page 12

Beginning in 2007, the accounts were settled on a regular basis, at least quarterly and usually monthly. Further, it is expected that the number and dollar amounts of the intercompany transactions will greatly diminish as the cash accounts of each company will be maintained separately. Intercompany accounts will be analyzed and reconciled on a regular basis, at least quarterly.

If you need anything additional or have questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "George A. Schneider".

George A. Schneider, Treasurer and CFO  
Mercy Health Plans of Missouri, Inc.  
14528 South Outer 40, Ste. 300  
Chesterfield, MO 63017-5705

CC: Robert R. Vogel, President and CEO